

2H22 stock market outlook

Facing headwinds

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The local and global stock markets have suffered corrections amid growing concerns about the US economic recession. Historical figures indicate that the VN-Index may fall further in the event of the US economic slowdown, given soaring inflation and the Fed's aggressive rate hikes.

We lower our projection for the VN-Index by the end-2022 to 1,418 (from 1,680 as previously forecast at the end of 2Q22), assuming that the US economy will not tip into a recession by the end of this year in the base case scenario. It is in line with the consensus of financial institutions in the world that the probability of recession in the US is 40% in the next 12 months. Specifically, we maintain our forecast for average EPS growth of companies listed on the (HSX) at 15.1% while revising the target P/E by the end of this year to 14.3x (vs. 16.5x in the 2Q22 strategy report) given rising unfavorable external factors *(See also Section I. 2H22 stock market outlook).*

The key growth drivers for the stock market in the second half of 2022 should come from resistance of the economy against increased external risks and high earnings growth of listed companies. We expect the market to enter a short-term recovery wave in 3Q22, in response to positive macro indicators and the 2Q22 earnings season, especially after deep corrections across cyclical sectors like banking, securities, real estate, and related industries. However, the VN-Index will hardly bottom out in 3Q22 and can only return to a long-term and sustainable uptrend on reduced risks, especially US economic recession, rising inflation, and the Fed's interest rate increases.

Apart from rising worries about the US economic downturn, other risk factors that can negatively affect the stock market include inflation spikes (especially in late 3Q22 and early 4Q22), exchange rate fluctuations, GDP growth, corporate bonds, monetary policy of the State Bank of Vietnam (SBV), the developments of the COVID-19 pandemic in China, Russia's war in Ukraine, oil price movements...

Entering the second half of 2022, KBSV's Equity Research takes a positive stance on industrial real estate, electric power, IT, retailers, fisheries, and oil and gas sectors *(Please refer to Section V. Sectors' prospects for further details).*

Contents

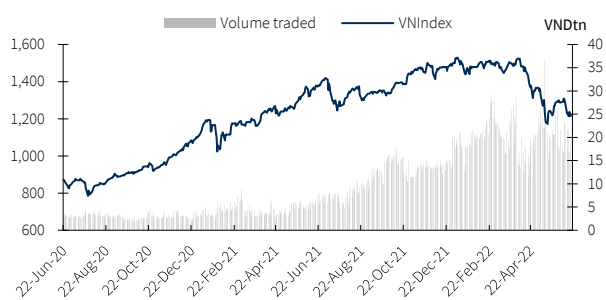
I. 2H22 stock market outlook	3
II. Valuation of cyclical stocks	6
III. Production & business activities	8
IV. Investment themes & model portfolio	10
1. 2% interest rate support package	10
2. China's relaxation of the COVID-19 lockdown	12
V. Risk factors	16
1. Impact of bond maturity on the real estate sector	16
2. The Fed's monetary policy and the recession risk of the US economy	19
VI. 3Q22 top picks & model portfolio	22
VII. Sectors' prospects	23
Residential real estate (VHM, KDH, NLG, DXG, NEUTRAL)	23
Industrial real estate (KBC, PHR, NTC, IDC, POSITIVE)	24
Power (POW, NT2, REE, QTP, GEG, PC1, POSITIVE)	25
IT (FPT, CMG, POSITIVE)	26
Banks (VCB, BID, VPB, MBB, TCB, POSITIVE)	27
Retailers (MWG, PNJ, POSITIVE)	29
Fisheries (FMC, VHC, ANV, POSITIVE)	30
Oil & Gas (GAS, BSR, PLX, PVT, POSITIVE)	31
Logistics (GMD, HAH, NEUTRAL)	33

I. 2H22 stock market outlook

Vietnam's stock market crashed in 1H22 with a sharp fall in liquidity

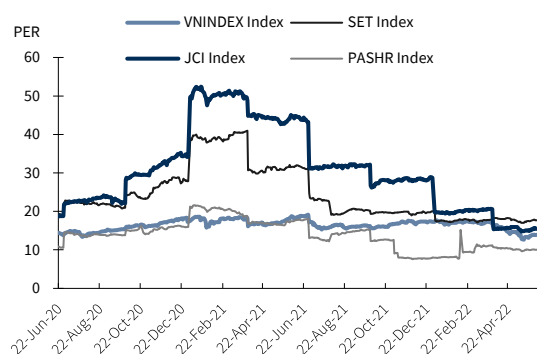
The VN-Index tumbled over the second quarter of 2022 after moving sideways in the previous quarter. It was because US economic recession fears heightened in the face of the Fed's aggressive rate hikes and soaring inflation, weighing on the global stock markets. During the first half of the year, the VN-Index slipped by 22.5% in absolute value, and at the same time, the average daily trading value dropped by 5% over the same period a year earlier.

Fig 1. Vietnam – VN-Index fluctuation



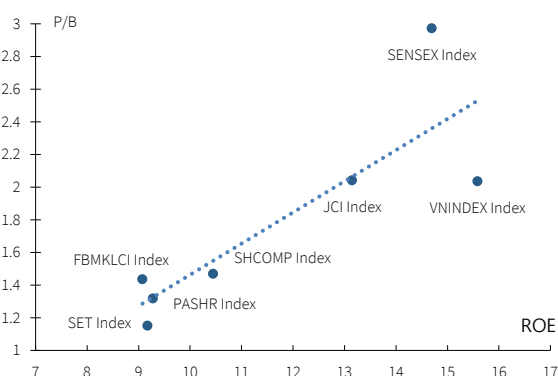
Source: Bloomberg, KB Securities Vietnam

Fig 2. ASEAN4 – P/E movements of stock indices



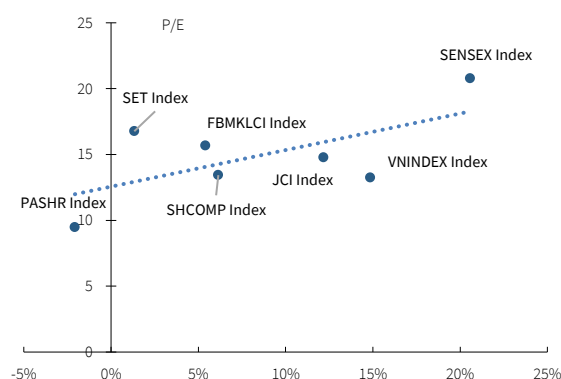
Source: Bloomberg, KB Securities Vietnam

Fig 3. Global – P/B-ROE correlation



Source: Bloomberg, KB Securities Vietnam

Fig 4. Global – P/E-EPS growth correlation



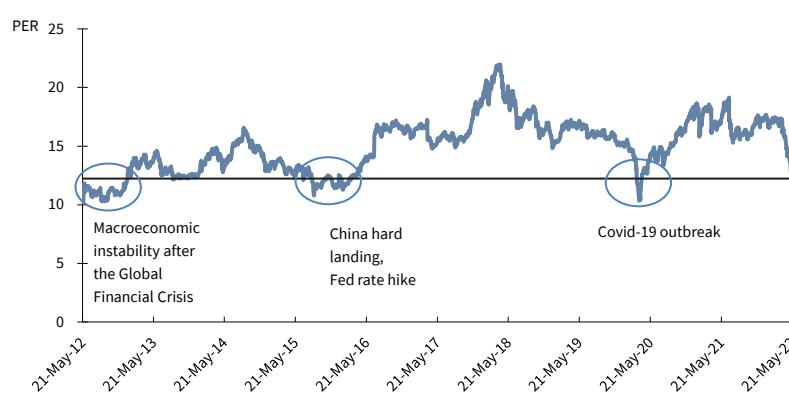
Source: Bloomberg, KB Securities Vietnam

The VN-Index remains attractive in comparison with other regional peers

When compared to other regional stock markets (Figure 2), Vietnam's stock market has endured its attractiveness given low P/B (Figure 3) and low P/E (Figure 4). Notably, foreign investors were net buyers during deep corrections of the VN-Index, while net selling in regional markets.

Despite a stable macroeconomic environment and the high earnings growth of listed companies, Vietnam's stock market has long been 'undervalued' relative to other markets as it remains a frontier market. In our view, the valuation gap will narrow on market reclassification, which is expected over the next two-three years and reflects the positive outlook of the market in the long run.

Fig 5. Vietnam – P/E of VN-Index



Source: General Statistics Office, KB Securities Vietnam

Note: The black line is equivalent to 2022 forward P/E of 12.2x.

Historical figures show that 2022 forward P/E of the index is only higher than the forward P/E of three periods over the last decade

After deep corrections in the second quarter, the end-2022/trailing 12-month forward P/E is 13.2x. Based on our VN-Index EPS growth forecast of 15.1% YoY for HSX-listed companies, the 2022 forward P/E of the index should be 12.2x. Statistically, there were only three times when the forward P/E was below 12.2x: (1) In 2012 due to macroeconomic instability following the great recession during 2007–2009; (2) In late 2015 and early 2016 amid rising worries of a hard landing for the Chinese economy and the Fed's rate hike for the first time after the financial crisis; and (3) In early 2020 given the COVID-19 pandemic. In brief, steep declines in the stock market were all associated with rising concerns about global economic growth, which explains the correction of the local stock market over the last quarter.

Table 1. Vietnam – Factors affecting the stock market in 2H22 (See also Section IV of this report)

Advantages	Impact	Possibility	Disadvantages	Impact	Possibility
Post-Covid economic recovery	Strong	High	Fed's aggressive rate hike causing recession	Strong	Medium
Fiscal stimulus	Medium	Medium	Escalated Russia-Ukraine conflict	Medium	Medium
Positive earnings growth of listed companies	Medium	High	Domestic inflation pressure leading to hawkish policy	Medium	Medium

Source: KB Securities Vietnam

The reasonable target for the VN-Index by the end of 2022 is 1,418-range

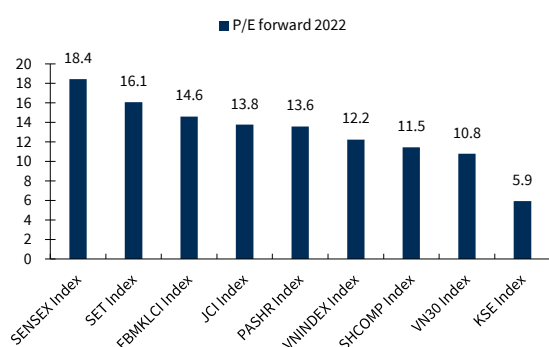
We maintain our forecast for the average EPS growth of companies on the HSX at 15.1% YoY (*lower than the Bloomberg consensus of over 20% – See also Section II. Production and business activities*). Moreover, we downgrade the index's 2022 target P/E from 16.5x (*in the 2Q2022 strategy report*) to 14.3x due to rising concerns about the US economic downturn. The VN-Index, therefore, should approach 1,418 by the end-2022.

Specifically, in the context of post-pandemic recovery of the global economy, the reasonable P/E of the VN-Index is 16.5x (equivalent to the average P/E of the last two years), supported by the economic resilience and enhanced financial health of listed companies. However, P/E may drop to 12x in the event of the US economic recession, considering its severity and impacts on the Vietnamese economy. With the probability of the two scenarios being 65/35 (Bloomberg consensus), we believe the end-2022 forward P/E of 14.3x is reasonable.

The dominant factor affecting local and global stock markets in the second half of 2022 is the risk of the US economic slowdown under the impact of inflation rate, interest rate rises, and the resistance of the US economy against aggressive rate hikes. In the base case scenario, given the low chance of US economic recession in 2H22, Vietnam's stock market will tend to rebound on positive business results of listed enterprises thanks to bettering economic fundamentals like high GDP growth, consumption recovery, export growth, FDI attraction, etc. However, the stock market may experience a steady upswing with alternating ups and downs as market sentiment may sour on rising macro risks.

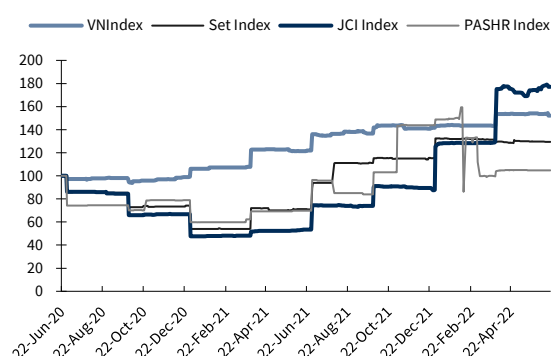
Other factors that may negatively influence the stock market include domestic inflation (especially in 3Q22 and 4Q22), economic growth, potential risks from the corporate bond market, the SBV's monetary policy, the COVID-19 pandemic in China, the war in Ukraine, oil price movements...

Fig 6. Global – 2022 forward P/E of stock markets



Source: Bloomberg, KB Securities Vietnam

Fig 7. ASEAN4 – EPS growth



Source: Bloomberg, KB Securities Vietnam

II. Valuation of cyclical stocks

The stock market currently shares the same macro conditions with the 2015–2016 period

As mentioned earlier, the end-2022 forward P/E of the VN-Index is only higher than the forward P/E of three periods in the past (2012, late 2015–early 2016, and early 2020), with the market's decline all coming from the risks of a global recession.

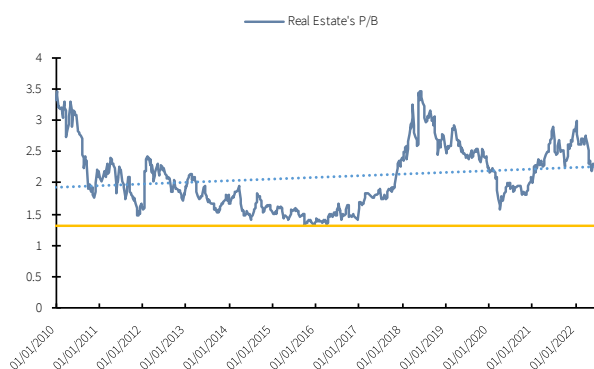
We assess the current macro context in line with the period of late 2015 and early 2016 (rising worries of a hard landing for the Chinese economy and the Fed's rate hike for the first time following the financial crisis) amid positive signals of the domestic economy. Meanwhile, the domestic economy was unstable in 2012 (following the financial crisis in 2009), and early 2020 (due to the outbreak of the COVID-19 pandemic).

Historical P/B showed that cyclical sectors have dropped to an attractive valuation

We use the P/B ratio to assess the attractiveness of cyclical sectors (banking, securities, real estate, steel) after deep corrections. We do not use the P/E ratio since the earnings growth of listed corporates in these sectors tends to fluctuate strongly during periods of macroeconomic instability.

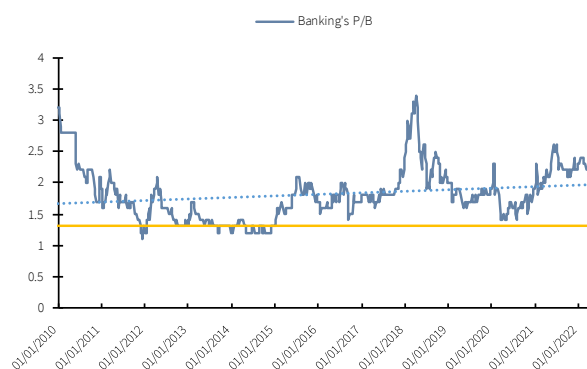
When comparing the current P/B with the lowest P/B in 2015–2016, except for the steel stocks whose P/B is 7% lower, banking, securities, and real estate stocks are trading at P/B of 23%, 30%, and 60% higher, respectively. It does not mean these sectors should fall further in the current macro context, in addition to the different inner strengths of enterprises reflected by the P/B ratio in the two periods. However, it also shows that the valuation of these sectors is not as attractive as it was in the 2015–2016 period, given the same macro context.

Fig 8. Vietnam – P/B of real estate sector



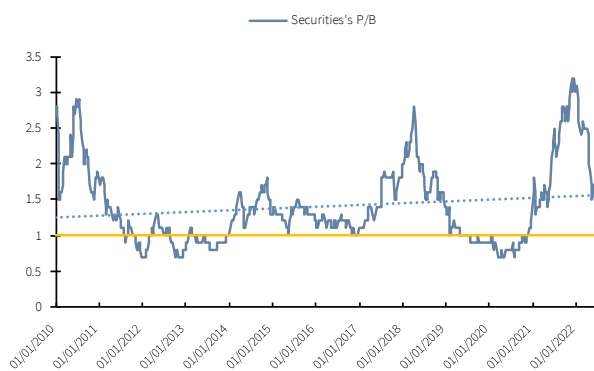
Source: Bloomberg, KB Securities Vietnam

Fig 9. Vietnam – P/B of banking sector



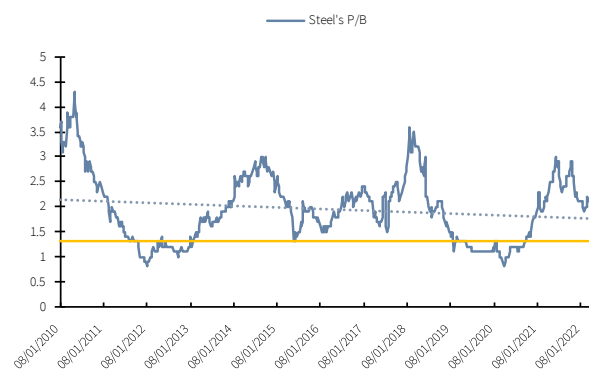
Source: Bloomberg, KB Securities Vietnam

Fig 10. Vietnam – P/B of securities sector



Source: Bloomberg, KB Securities Vietnam

Fig 11. Vietnam – P/B of steel sector



Source: Bloomberg, KB Securities Vietnam

III. Business activities

Companies listed on the HSX achieved impressive business results in 1Q22

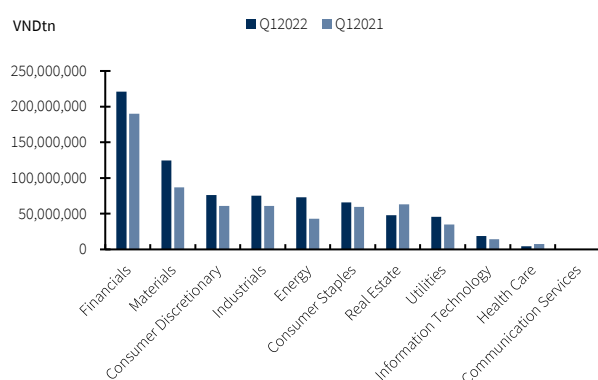
Business results of companies listed on the HSX in 1Q22 continued to explode in the context of the post-pandemic recovery of the economy, with earnings and revenue growth of 31.2% YoY and 21.1% YoY, respectively. It was thanks to the stable operation of business activities in the new normal, given the high vaccine coverage rate in 4Q21.

In particular, sectors that were most affected during the pandemic showed the highest earnings growth, namely industry (+488% YoY), utilities (+64% YoY), and essential consumer goods (+41% YoY). The strong growth of the materials sector (+46%) came from the combination of two factors, surging commodity prices and scarce supply against the backdrop of the Russia-Ukraine war. On the contrary, the real estate sector posted negative growth under the impact of tight credit control after its rapid recovery in 2021. In 1Q22, most industries recorded improvements in gross profit margin over the same period thanks to better control of the pandemic, except for real estate and raw materials (excluding chemicals and fertilizers with a spike in selling prices) due to surging input costs and transportation costs.

We maintain our forecast for average EPS growth of companies on the HSX in 2022 at 15.1% YoY

We maintain our forecast for the average EPS growth of companies on the HSX at 15.1% YoY (in the 2Q22 strategy report) based on their business plans combined with the consensus projection in the current macro context. Although the global economy still faces challenges in the second half of 2022 due to the continued increase in raw material prices, high inflation, aggressive interest rate hikes & shrinking economic balance sheets, risks of economic recession in the world's largest economy, the Russia-Ukraine war. We believe Vietnam's economy will continue its growth with GDP growth of 6.3% in 2022, driving the high earnings growth of listed enterprises.

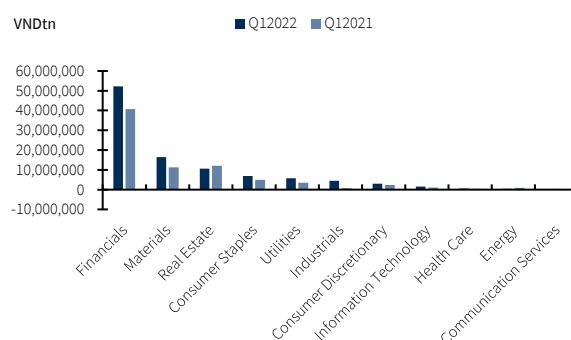
Fig 12. Vietnam – 1Q21–22 revenue across sectors (VNDtn)



Source: KB Securities Vietnam

Note: Based on Global Industry Classification Standard (GICS)

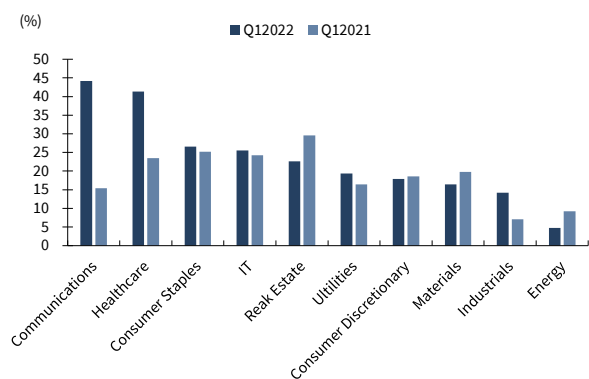
Fig 13. Vietnam – 1Q21–22 profit across sector (VNDtn)



Source: KB Securities Vietnam

Note: Based on Global Industry Classification Standard (GICS)

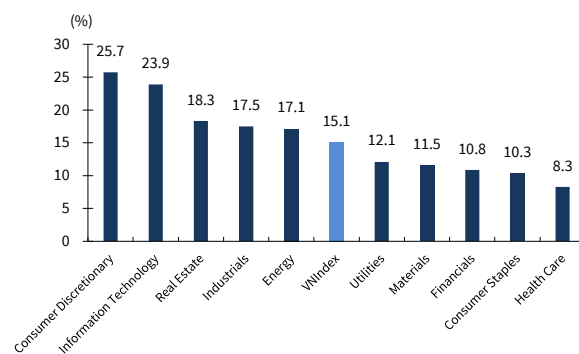
Fig 14. Vietnam – 1Q21-22 gross profit margin across sectors



Source: KB Securities Vietnam

Note: Based on Global Industry Classification Standard (GICS)

Fig 15. Vietnam – 2021A-2022F EPS growth



Source: KB Securities Vietnam

Note: Based on Global Industry Classification Standard (GICS)

IV. Investment themes & model portfolio

1. 2% interest rate support package

The 2% interest rate support package of VND40,000 billion is a boost for businesses' recovery but also stokes fears of potential risks

Recently, the Government has approved the 2% interest rate support package of VND40,000 billion (equivalent to a preferential credit of up to VND1 quadrillion or 9.6% of outstanding credits of the banking system by the end of 2021). It is for loans of enterprises, cooperatives, and business households disbursed between January 1, 2022 and December 31, 2023 in one of the registered business sectors specified in Decision No. 27/2018/QĐ-TTg (Table 2).

This support package would create a boost to accelerate the recovery speed of enterprises in the new normal. However, it also sparks concerns about businesses spending the capital for wrong purposes like investing in speculative assets, raising pressures on inflation, exchange rate, and investment efficiency as it did in 2009 following the implementation of a similar support package.

The size, interest rate support, limited subjects eligible for the support and strict control would limit risks of the support package in the current macro context

However, we believe the abovementioned risks of the 2% interest rate support package can be limited for the following reasons:

- (1) Outstanding loans of the support package equal 9%/year compared to the total outstanding credit of the banking system in 2022 and 2023, down from 24% in 2009.
- (2) The interest rate support is 2% instead of 4% in 2009.
- (3) It only applies to nine specified sectors with low credit risk and the ability to recover & repay their debts and without overdue original debt and/or late payment interest.
- (4) The banking system is now more solid and healthier than the previous term and weathered the pandemic storm quite well. The SBV will limit the credit cap instead of unlimited credit caps in 2009. Besides, current macro conditions can contribute to the stability of the economy.

The 4% interest rate support package worth VND17,000 billion in 2009 left plenty of economic consequences. As a result, the tight credit control and limited subjects eligible for the support by the SBV and the Ministry of Finance this time would help reduce risks. On the other hand, the SBV would raise credit caps for banks in parallel with controlling inflation, given little room left for credit growth to carry out the support package. It will somehow affect the business performance of many banks since they will have to advance the loans, with 85% paid by the Ministry of Finance quarterly and the final settlement of the remaining 15% being in the first quarter of the following year. State-owned commercial banks will likely represent most of the interest rate support limit due to their high ratio of loan outstanding balance to total outstanding loans of banks.

The interest rate support package has positive but little effects on the stock market

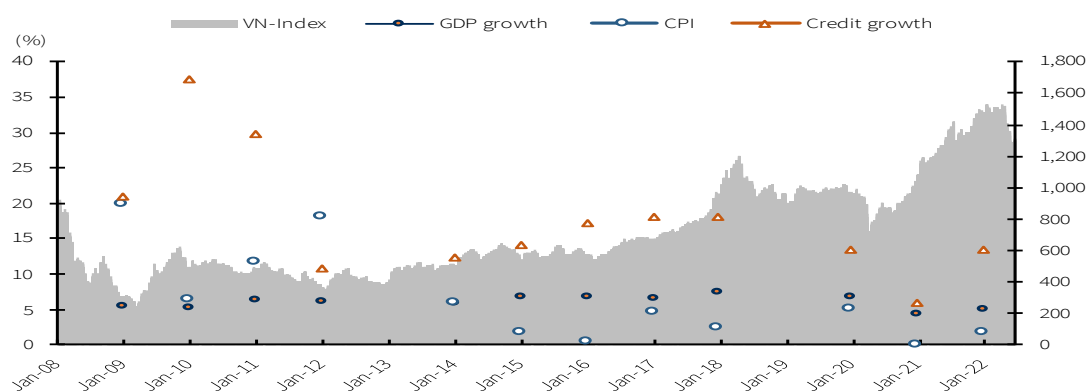
The support package would be a lifesaver for the market in the short term amidst a slew of negative news. In the medium and long run, the depth of the impact will depend on the effectiveness of the support package (alongside other support packages in the economic stimulus package worth VND350 trillion) on the macro economy as well as the business activities of listed companies, especially beneficial ones. In our view, the positive impact on cash flow will not be profound as the economic stimulus package of VND40,000 billion is merely 0.6% of the market capitalization, equaling one-fourth of the stimulus package of VND17,000 billion in 2009. Moreover, the control of the implementation is stricter and more effective than in 2009, when the banking industry was in the early stage. Therefore, much of the cash flow from this support package will less likely flow into the securities sector.

Beneficial sectors include banks and industries eligible for the support package

Beneficial sectors include:

- Banks, especially the State-owned commercial banks, thanks to the scale expansion and expanded credit growth quotas of banks with priority to increase the credit cap during the implementation of the support package. Our top picks are Vietcombank (VCB), Vietinbank (CTG), BIDV (BID), Military Bank (MBB).
- Aviation, transportation, logistics, tourism, industry-agriculture-fishery, and IT: eligible for the preferential interest rates.

Fig 16. Vietnam – 2008–2022 VN-Index & indices



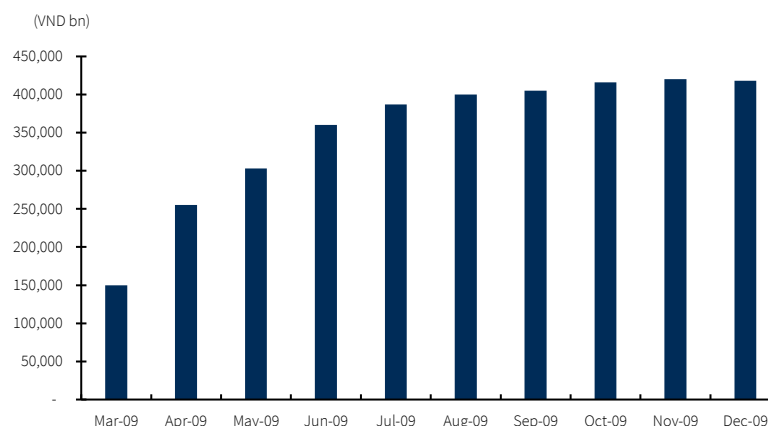
Source: Bloomberg, KB Securities Vietnam

Table 2. Vietnam – Support package

Criteria	Content
The reduction rate	2%/year
Scale	VND40,000 billion
Interval	Loans that are approved and disbursed between January 1, 2022 and December 31, 2023
Targeted sectors	Aviation, logistics, tourism, accommodation services, catering, education and training, agriculture, forestry and fisheries, processing & manufacturing industry, software publishing, computer programming, information services, construction activities that directly serve the aforementioned sectors but do not include construction activities for real estate purposes specified in the economic sector code
Conditions	Individuals that are subjected to incentives. The loans are denominated in VND, with no overdue principal and/or late interest payment
The limits of each commercial bank	The supported interest rate limits of commercial banks equivalent to 40,000 * (current loans & advances to customers/registered loans and advances to SBV) but not over the registered limits

Source: Decree 31/2022/ND-CP

Fig 17. Vietnam – Total loans of the interest rate support package in 2009 (VNDbn)



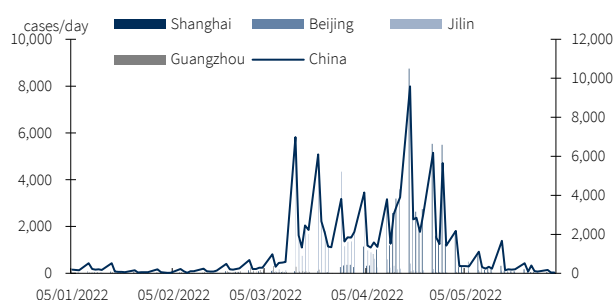
Source: General Statistics Office

2. China's relaxation of COVID-19 lockdown

The outbreak of COVID-19 in China caused disruptions in the global supply chain

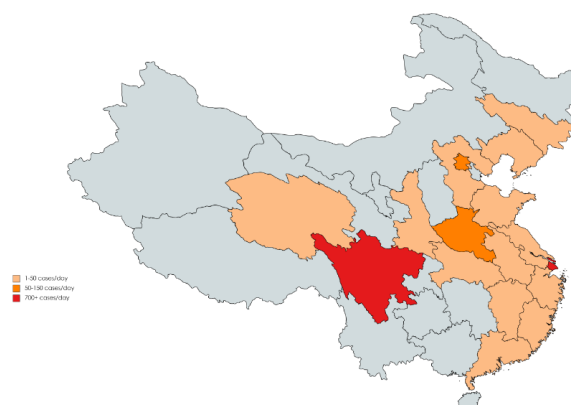
The Chinese Government has imposed lockdowns and stringent curbs since the outbreak of the COVID-19 pandemic in Shanghai in late February amid concerns about rising daily cases and low vaccine coverage rate among the elderly. It spread quickly to major cities in China, such as Guangdong, Shandong, Jilin, and others, home to many factories and busy seaports that are enormously important to the global supply chain (Figure 20). China's cargo throughput across container ports shrank by 2.8% YoY in April. In particular, Shanghai was affected the most, with cargo throughput down 27.1% YoY after eight weeks of lockdowns. Furthermore, means of transport were not allowed to enter the container yards in the seaport and dry ports, causing the loading and unloading to be congested and many ships to sit offshore. Statistically, the time to transport containers from China to the US by sea increased by more than three weeks to 107 days in the first quarter of 2022.

Fig 18. China – Number of Covid cases (cases/day)



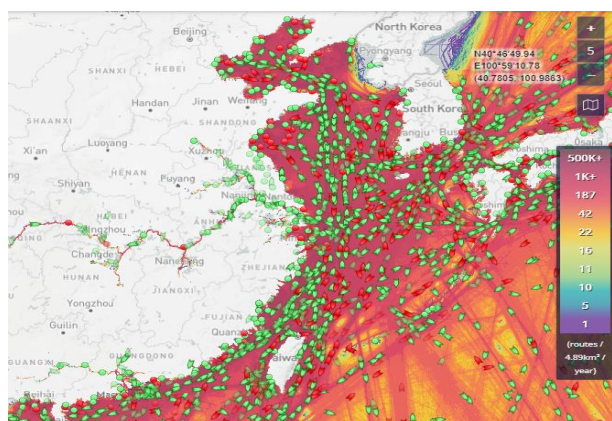
Source: Bloomberg

Fig 19. China – Covid cases across provinces/cities



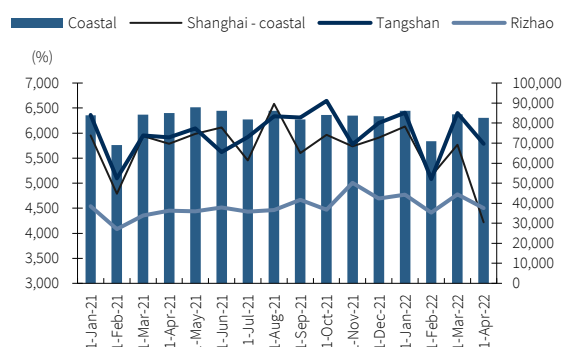
Source: Bloomberg, KB Securities Vietnam

Fig 20. China – Number of cargo ships through seaports



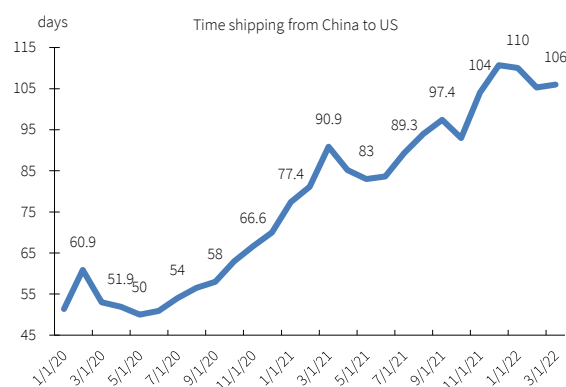
Source: MarineTraffic

Fig 21. China – Cargo throughput across seaports



Source: Bloomberg

Fig 22. Global – Transportation time from China to the US

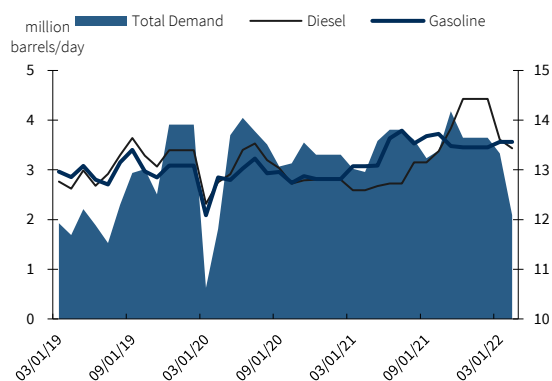


Source: Statista

The number of infections gradually decreased from its peak of 9,000 cases/day in mid-April to more than 100 cases/day at the end of May, helping social distancing measures to be gradually eased. Despite numerous restrictions, Chinese people can now move freely, and production and trade activities should improve progressively in the time ahead. The relaxation of lockdowns is said to have opposite effects on Vietnam's economy in general and Vietnam's stock market in particular:

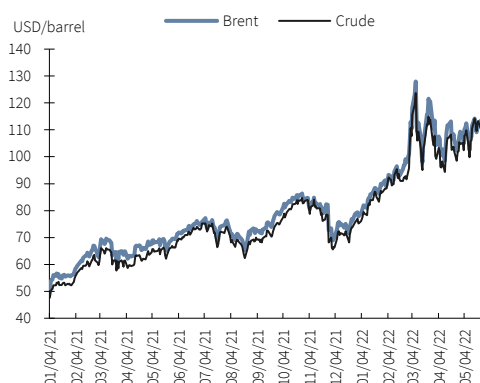
Oil and Gas: The average oil consumption in China ranged around 13.3 million barrels per day in 2021. Imposed social distancing measures in big cities caused total oil consumption in China to drop by 1.3 million barrels per day in April. The increase in consumption demand when China gradually reopens the economy would boost oil prices in the coming time, despite soaring prices over the past few months.

Fig 23. China – Oil consumption (million bpd)



Source: Bloomberg

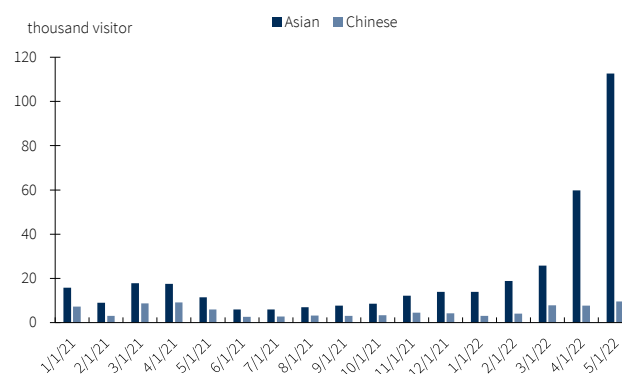
Fig 24. Global – Oil prices (USD/bbl)



Source: Bloomberg

Aviation – Tourism: Before the pandemic, the number of foreign tourists from Asian countries visiting Vietnam was about 14.3 million, with 5.8 million Chinese visitors (accounting for 40% of the total number of visitors). The frequency of international flights for the winter flight schedule in 2019 was 4,185 flights/week/route against 370 flights/week/route in mid-February 2022 (down 92% compared to 2019). In 5M22, the number of Asian visitors showed signs of improvement (+3.2x YoY), contrary to a 5.2% YoY decrease in Chinese visitors. The removal of flight restrictions in the second half of the year should boost the number of Chinese visitors, driving business performance of aviation and tourism businesses.

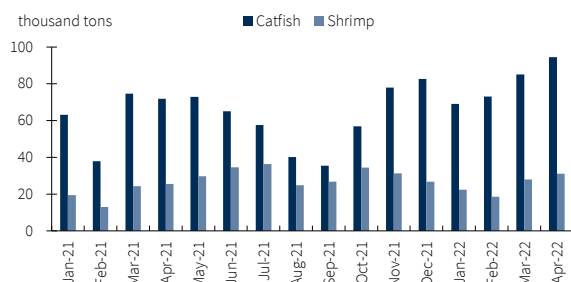
Fig 25. Vietnam – Asian & Chinese visitors (thousand people)



Source: General Statistics Office

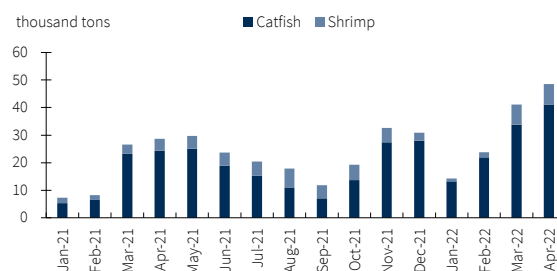
Fisheries: Vietnam's pangasius exports in 2021 hit 736 thousand tons (-6.5% YoY), while shrimp exports reached only 326.9 thousand tons (-1.5% YoY). China is the leading market for pangasius consumption and the second largest market for shrimp consumption of Vietnam. Despite Covid lockdowns across major cities in China and tightened inspection of imported and exported goods, Vietnam's seafood exports to this market still showed signs of growing. It reflects huge consumption demand of the Chinese market, which is expected to continue to rise in the coming time after the lifting of lockdowns in megacities.

Fig 26. Vietnam – Monthly pangasius & shrimp exports (thousand tons)



Source: Agromonitor

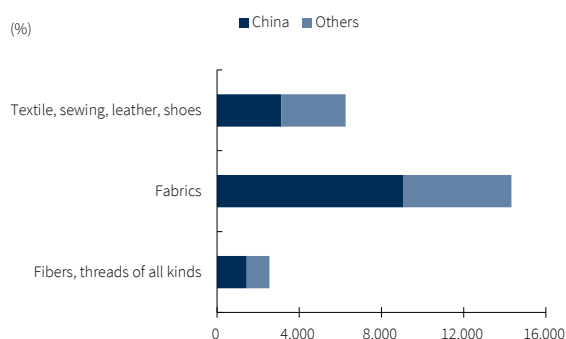
Fig 27. Vietnam – Pangasius & shrimp exports to China (mn tons)



Source: Agromonitor

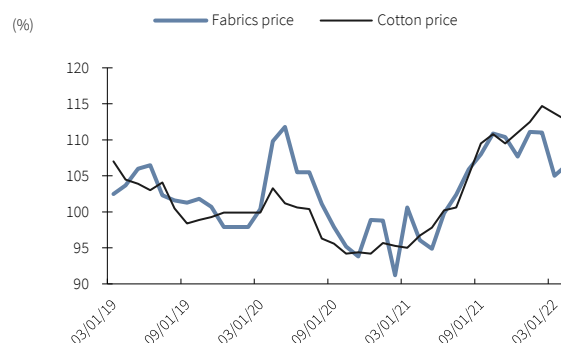
Textile and garment: In 2021, Vietnam imported more than USD23 billion of textile yarns, fabrics, and other materials to serve domestic orders, with more than USD13.6 billion or 60% of the import value from China. The import value of input materials from China in the first four months of 2022 rose by 16.5% YoY mainly due to surging prices of cotton (+22% YoY) and cotton yarn (+20% YoY), reaching five-year highs. Besides, soaring freight rates in line with spiraling oil prices amid modest increases in garment product prices dampened the profit margin of domestic textile enterprises. We expect China's relaxation of Covid lockdowns will help resolve supply chain bottlenecks, ensure raw material supply, and improve gross profit margin for Vietnamese textile and garment enterprises.

Fig 28. Import value of input materials of Vietnam's textile industry in 2021



Source: General Statistics Office

Fig 29. China's export cotton yarn and fabric price index



Source: Bloomberg

V. Risk factors

1. Impact of bond maturity on the real estate sector

The upcoming maturity of corporate bonds would not weigh much on the cash flow of listed real estate companies

In 2022, the total value of real estate corporate bonds to maturity would reach VND123,400 billion, with only 15.5% from listed companies and 84.5% from unlisted companies (Figure 30). We believe tight control over real estate credit and stricter monitoring of corporate bond issuance would very much affect the capital mobilization of the real estate sector over the next quarters. Besides, the need for large amounts of money for the maturity of bonds this year may put enormous pressure on the cash flow of real estate enterprises.

On the bright side, large-scale enterprises are promoting sales to improve cash flow: (1) Total value of newly signed contracts increased sharply in 1H22 at Vinhomes (VHM) VND16,500 billion, Novaland (NVL) VND28,000 billion (+62% YoY), Nam Long Group (NLG) VND7,880 billion and Dat Xanh Group (DXG) VND400 billion; (2) Sales prospect for 2022 is positive (Figure 33). Aside from the two traditional capital mobilization channels, credit and corporate bonds, listed companies have been assessing and diversifying capital sources such as investment funds, M&A, and international joint ventures (Figure 34). Specifically, NVL successfully issued USD250 million of convertible and warrant-linked bonds to foreign partners; DXG may complete the issuance of USD300 million of international convertible bonds in 3Q22. We believe the large-scale listed real estate firms are fully capable of repaying debts when corporate bonds mature, despite the challenges of the real estate industry in the current context. As for small and medium businesses, it will take time for further assessments.

The negative impact on the real estate market will be more obvious in 2H22 and the maturity will put enormous pressure on the sector over the next two years

Despite no major events causing far-reaching effects among large-cap stocks in the real estate sector, we believe the performance of listed and unlisted real estate companies will be negatively affected in the last two quarters of this year due to the tight control of credit and corporate bond issuances. Meanwhile, part of the speculative flow has returned to production and business activities following the economic reopening, especially in the context of sharp increases in property prices in many areas over the past two years.

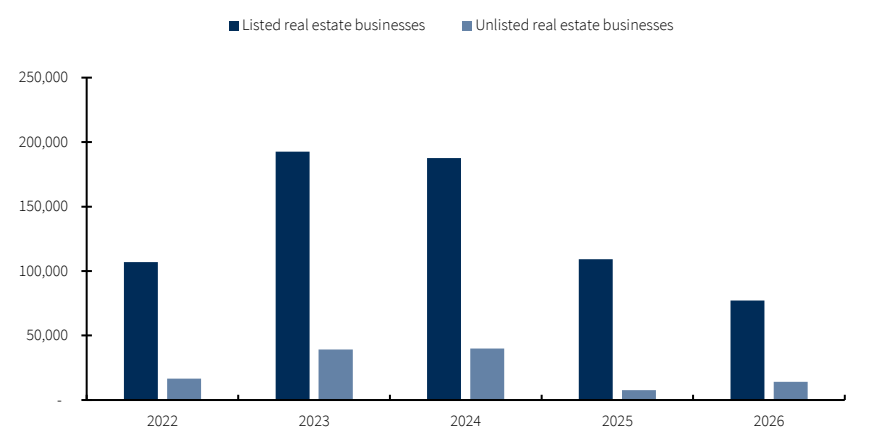
– Statistics show that the issuance value of real estate corporate bonds decreased steeply, with no issuance recorded in April and only VND1,300 billion from corporate bond issuance recorded in May (–91% YoY).

- According to the SBV, by the end of April 2022, the total outstanding real estate loans at credit institutions were more than VND2.28 quadrillion, up 10.19% compared to the end of 2021. It accounts for around 20.44% of the total outstanding loans of the economy, and the bad debt ratio of this sector is approximately 1.62% or VND37,000 billion. Therefore, the SBV has been closely monitoring the growth of outstanding loans and credit quality in the securities and real estate sectors to promptly detect potential risks and take appropriate measures to ensure banking system safety.
- Property prices increased sharply across provinces and cities (Figure 35 and Figure 36).

In the pessimistic scenario, if the real estate market turns gloomy and faces challenges in sales and capital mobilization to repay debts, it will lead to cash flow disruption and spillover effects on the banking operation, given the close relationship between these two sectors.

Generally, we believe the problems will surround a few small and medium-sized enterprises facing bad financial health, which will hardly create strong spillover effects. The real estate sector contributes nearly 8% of GDP annually and impacts 40 other key sectors of the economy. Therefore, tight control of the SBV is necessary to stabilize and help the market take regulatory steps to maintain sustainable development in the long term.

Fig 30. Value of real estate corporate bonds maturing during 2022–2026

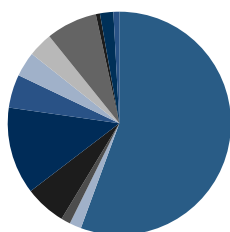


Source: FiinGroup, KB Securities Vietnam

The issuance value of corporate bonds of unlisted and listed real estate businesses is 84.5% and 15.5%, respectively.

Fig 31. Vietnam – Value of corporate bonds to maturity of listed real estate companies in 2022

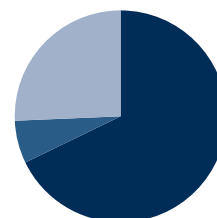
NVL PDR KDH KBC DXG NLG HDG VPI HPX SCR AGG DRH



Source: Vietnamese businesses, KB Securities Vietnam

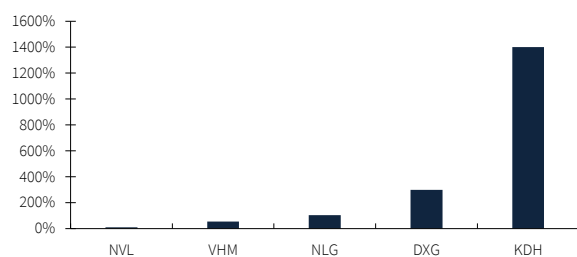
Fig 32. Vietnam – Structure of collateral for bonds to maturity of listed real estate companies

Real Estate, Project & Land Stock Unsecured debt



Source: Vietnamese businesses, KB Securities Vietnam

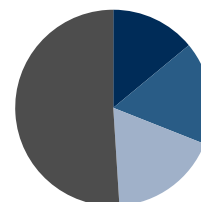
Fig 33. Vietnam – Sales prospect in 2022 (%)



Source: Vietnamese businesses, KB Securities Vietnam

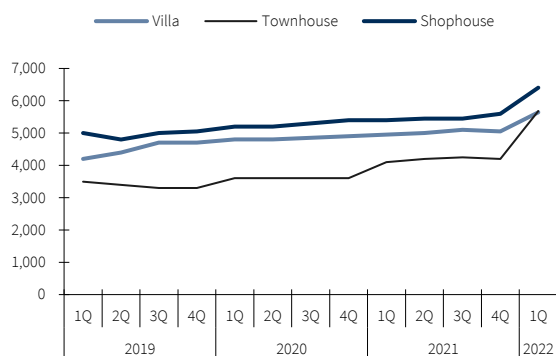
Fig 34. Vietnam – Capital structure of listed real estate companies

Bank loan Bond Unearned revenue Investment funds, M&A, and international joint ventures



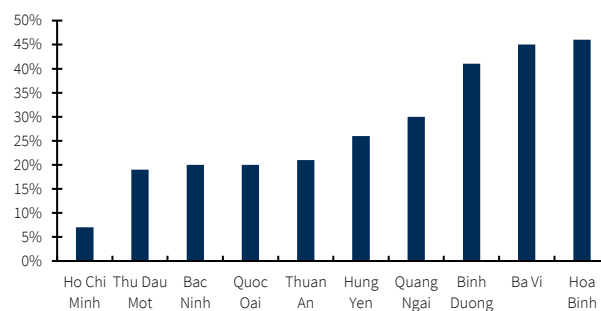
Source: Vietnamese businesses, KB Securities Vietnam

Fig 35. Vietnam – House prices by segment in Ho Chi Minh City during 2019 – 2022



Source: CBRE Group, KB Securities Vietnam

Fig 36. Vietnam – House prices growth in provinces in 2022 (% YoY)



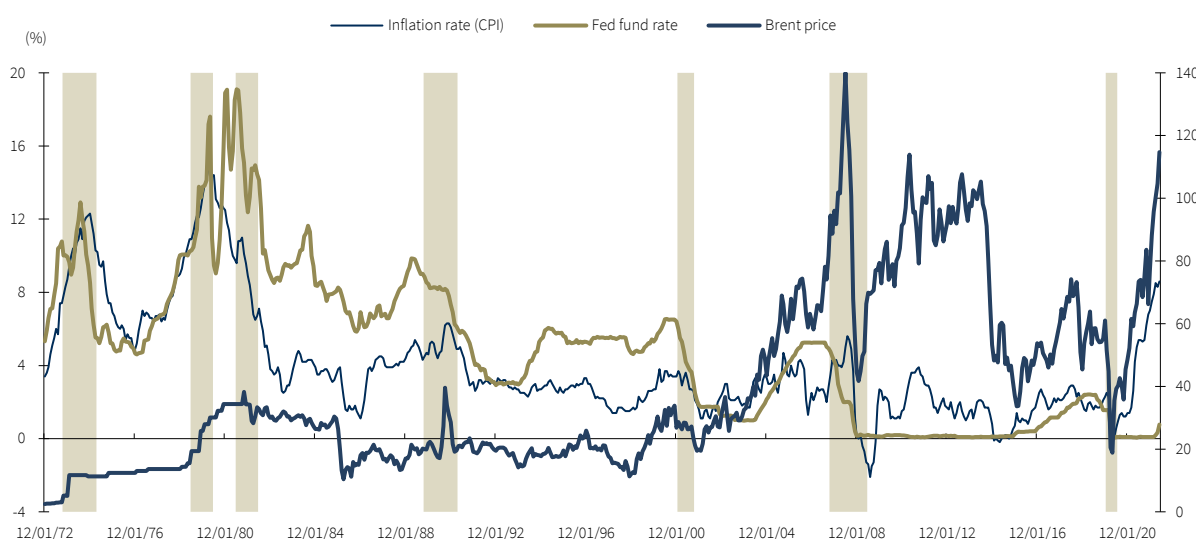
Source: Batdongsan.com, KB Securities Vietnam

2. The Fed's monetary policy and the recession risk of the US economy

At its June policy meeting, the Fed raised benchmark interest rates by 75 bps to 1.5–1.75%, the sharpest increase since 1994, to tame inflation. At the same time, the Fed also pointed to shrinking assets by nearly USD50 billion monthly from USD9,000 billion, starting June 2022.

The US inflation (which is greatly influenced by oil price movements) is currently of top concern and a decisive factor in the Fed's monetary policy and the recession risk. Against the backdrop of spiraling oil prices stemming from the conflict between Russia and Ukraine, we find the US situation at present similar to the period of the oil crisis in 1973–1974. At that point, after the Arab-Israel war, Saudi Arabia enacted an oil embargo against various countries supportive of Israel, including the US. Oil prices quadrupled and maintained at USD11.2/barrel for two quarters, causing inflation to rise sharply to 7.4% at the end of the third quarter of 1973. It prompted the Fed to aggressively hike the interest rates to 10.5% and push the US into an 18-month recession before inflation was brought under control (Figure 37).

Fig 37. US – 1970A–2022A inflation rate, Fed funds rate, oil prices (%)



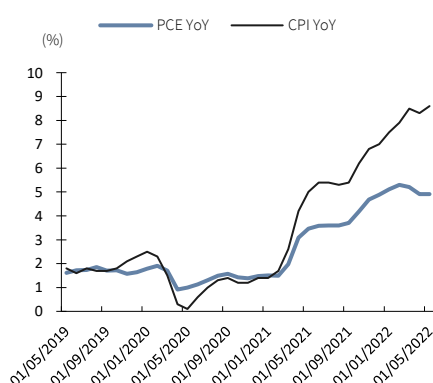
Source: Bloomberg, KB Securities Vietnam

Note: The highlighted area is the time period of recession

Based on the 2y–10y yield curves, the probability of a US economic recession over the next 12 months is increasing, from 22% at the beginning of the year to 40% after the first two quarters, in line with the consensus of financial institutions (Figures 40 & 41). In our view, the Fed's tight monetary policy will increase the US economic recession risk since high interest rates would seriously affect the business activities of enterprises using large loans as leverage. Along with that, high inflation also negatively affects domestic consumption demand. Therefore, we assess the market related to the US economic recession risk based on two scenarios as follows:

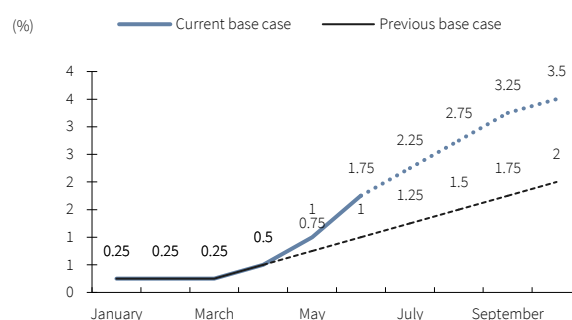
- In our **base case scenario**, the probability of a 'soft landing' for the US economy is more than 50%. Accordingly, inflation will not surge in the time ahead, and interest rates will approach 3–3.25% by the end of 2022 as expected. Besides, the US economy is strong enough to withstand interest rate hikes without dragging into a recession. In this scenario, the negative impact of the Fed's interest rate hikes on the macro economy and the health of Vietnamese listed companies is limited. As a result, Vietnam's stock market will maintain high growth potential thanks to a bettering macro-fiscal foundation.

Fig 38. US – 2019A–2022A CPI, PCE



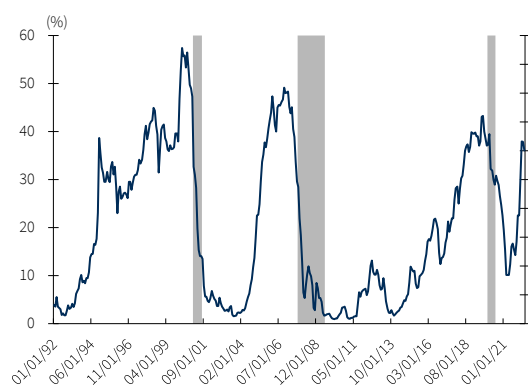
Source: Bloomberg

Fig 39. US – Expected rate hike in the base case scenario (%)



Source: KB Securities Vietnam

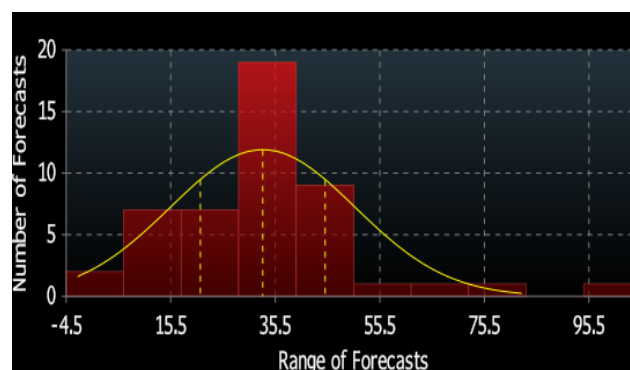
Fig 40. US – Probability of recession according to 2Yr & 10Yr yield curve



Source: Bloomberg

Note: The highlighted area is the time period of recession

Fig 41. US – Probability of recession according to financial institutions and businesses



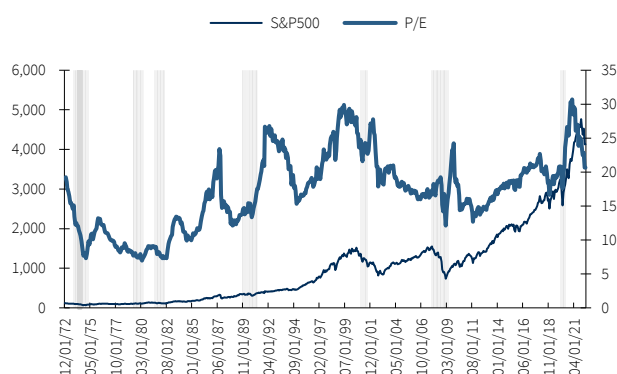
Source: Bloomberg

- In the **pessimistic scenario**, the conflict between Russia and Ukraine continues to prolong, causing disruptions in the supply chain of petroleum, gas, fertilizer, and food products. As a result, inflation would increase hotter than expected and show no sign of peaking (Figure 38), forcing the Fed to raise interest rates more aggressively than the base case scenario to 3.5%–3.75% at minimum at the end of 2022. Rising interest rates, high inflation, and contractionary fiscal policy will likely push the US economy that has just recovered from the COVID-19 pandemic into a recession.

The US has experienced seven economic recessions lasting from six to 18 months since 1970. The S&P 500 recorded an average drop of 21% over the period and slammed by 41% between 1973 and 1975 due to the recession. Despite different macro contexts, we believe that the US stock market can drop by 25% from its peak in case of an economic downturn.

Vietnam recorded import-export turnover/GDP at 185% in 2021, thanks to its high economic openness. In particular, the US is the leading export market with an export turnover of USD96.3 billion, accounting for 28.6% of the country's total export turnover. The recession in the world's largest economy will negatively impact the health of the Vietnamese economy in general and the business activities of listed companies in particular. We believe that in the negative scenario where the US enters a recession, the P/E of the Vietnamese stock market will be 25% lower than the five-year average, equivalent to 10x.

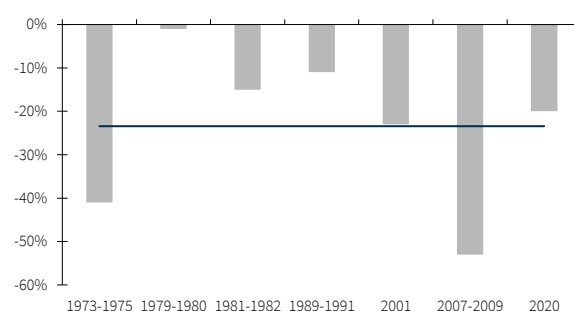
Fig 42. US – 1972E–2022E S&P 500 & P/E



Source: Bloomberg

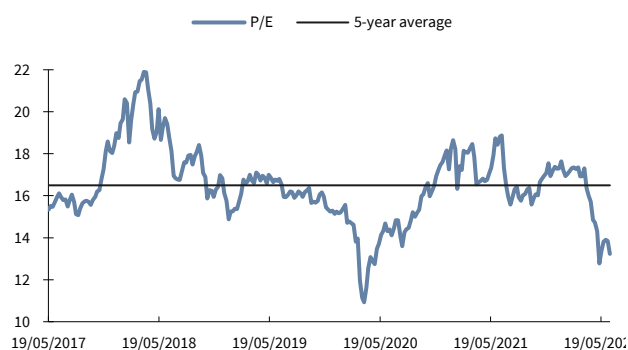
Note: The highlighted area is the time period of recession

Fig 43. US – S&P 500 during recession



Source: Bloomberg, KB Securities Vietnam

Fig 44. Vietnam – 2017A–2022A P/E VN-Index



Source: Bloomberg

VI. 3Q22 top picks & model portfolio

Table 3. KBSV Top picks

Ticker	Target price (VND)	Closing price (Jun 30)	Expected earnings	2022 forward PE	2022F NPAT growth	Investment catalysts
FPT	137,800	86,200	60%	16.20	20%	<ul style="list-style-type: none"> - FPT continues to set an ambitious growth plan for 2022 in North Asia (+20%), America (+33%), the EU (+25%), and Southeast Asia (+25%). - FPT expects a 3-year CAGR of no less than 30% and a 50% growth of 2022F PBT thanks to digital transformation. - The education & investment segment maintained positive revenue growth (+93.3% YoY) in 2021 despite the negative impact of the COVID-19 pandemic.
VCB	95,000	74,800	27%	15.10	22%	<ul style="list-style-type: none"> - NPAT grew significantly from 1Q21 high, with the main driving force from credit growth. - VCB continues to boost provisioning in 1Q2022, with loan loss coverage ratio reaching 373%. - The takeover of a weak bank brings the following benefits: (1) It enables increased growth rates of assets, credit, and branch networks; (2) the SBV will not limit credit growth if VCB meets the required capital adequacy ratio; and (3) customer loans may exceed 15%/25% of VCB's core capital.
GAS	140,400	115,500	22%	22.50	41%	<ul style="list-style-type: none"> - Revenue and NPAT in the first quarter of 2022 increased by 51.9% YoY and 69.9% YoY. - GAS benefits from high world oil prices. - GAS benefits from the recovering gas demand from power plants due to coal shortages for coal-fired power plants.
PNJ	140,000	128,500	9%	16.30	59%	<ul style="list-style-type: none"> - PNJ's retail sales in the first quarter of 2022 continued to grow strongly by +43.2% YoY since its main customer base is less affected by the negative impact of the COVID-19 pandemic. - In 1Q22, we estimate the average sales per store (Gold and Silver) of PNJ at VND5.6 billion, 98% and 39% higher than 1Q20's and 1Q21's, respectively. - PNJ plans to open 30 to 40 new stores per annum between 2022 and 2025; The BOD said PNJ has been looking for a venue to build a new factory, with construction expected this year due to the full-capacity operation of existing factories.
PC1	58,300	39,500	48%	9.00	38%	<ul style="list-style-type: none"> - We expect PC1's three wind power plants to go into stable operation in 2022 with high consumption volume and competitive selling price compared to thermal power in the wake of high fuel prices. At the same time, hydropower plants will face challenges due to unfavorable hydrological conditions this year. - PC1 put four new hydropower plants into operation, increasing the total capacity of the hydropower segment by 50%. - The launch of three IPs in the coming period will contribute VND600-1 trillion in profit from joint ventures and associates from 2023 to 2026.
MSN	165,900	112,000	48%	25.98	-40%	<ul style="list-style-type: none"> - MCH can capitalize on the WinCommerce retail chain to: (1) reduce selling costs, optimize advertising costs, and make products easily accessible; and (2) quickly receive feedback about the products. - Revenue and profit margin of WinCommerce will continue to increase in the coming period. The EBITDA margin improved significantly from -5.1% in 1Q20 to 2.2% in 1Q22. - Masan High-Tech Materials (MHT) expects the key business segments to be driven by: (1) high selling prices of primary products such as Tungsten, Fluorspar; (2) growing demand for these two products thanks to their versatility in national defense, energy, and petrochemical.
NT2	29,200	24,800	18%	8.50	45%	<ul style="list-style-type: none"> - Gas power plants of NT2 will benefit from the shortage of input materials for coal-fired power plants. 2Q22 NPAT may reach VND247 billion (+8.88x YoY) from the low base of 2Q21. - NT2 repaid all of its long-term debts and would receive compensation for the exchange rate loss, ensuring stable growth in the future. - Dividend yield is attractive considering the current share price.
TCB	65,000	35,550	83%	5.50	26%	<ul style="list-style-type: none"> - 1Q22 business results recorded the highest EBT with VND6,785 billion (+10.5% QoQ, +23% YoY). - Net profit margin may continue to improve thanks to: (1) record high CASA; (2) offshore syndicated loans at a relatively low interest rate (2022: USD1 billion, 2021: USD800 million, 2020: USD500 million); (3) boosted investment in corporate bonds with higher interest rates. - TCB will accelerate disbursement for home loans in 2H22 given the launched projects of VHM & Masteries. - TCB set a conservative business plan for 2022 with credit growth of 15% (vs. 26.5%YoY in the same period last year), consolidated PBT up 16.2%YoY to VND27,000 billion.
MBB	36,500	24,200	51%	9.00	47%	<ul style="list-style-type: none"> - Asset quality is among the top in the banking system, with bad debt ratio of 0.99% and loan loss coverage ratio of 250%, the second highest in the industry. - 2022F PBT growth should be 23% YoY with credit growth of 16%. - Acquiring a weak bank helps MBB: (1) increase growth rates of assets, credit, & branch networks by 1.5-2x; (2) expand credit room & receive preferential loans.
DXG	52,600	19,500	170%	19.47	19%	<ul style="list-style-type: none"> - DXG will reopen for sale its key project Gem Riverside in 2Q22 (in 3Q22 at the latest) at about VND80 million/m², much higher than previously planned at VND30-32 million/m² in 2018. - Gem Premium in Thu Duc City is also in the process of redoing the 1/500 detailed planning and may open for sale in the near future. - DXG is aggressively expanding the landbank, with the current area of about 4,200 ha, of which 30-40% is clean landbank available for sale.

Source: KB Securities Vietnam

VII. Sectors' prospects

Residential real estate

Prospect: Neutral
Tickers: VHM, KDH, NLG, DXG

The apartment market saw supply declines in 1Q22 compared to 1Q21 in two megacities, Hanoi and Ho Chi Minh City (HCMC). In Hanoi, the number of apartments available for sale shrank by 20% YoY, given the Tet holidays and the COVID-19 outbreak in February and March. In HCMC, the supply slipped to the bottom low in 1Q22 ever since 2013, with only 884 units opened for sale. On the bright side, the absorption rate of new projects remained high at about 90% in HCMC and rose by 15% in Hanoi. Also, the selling prices jumped by 13% YoY in Hanoi and 8% YoY in HCMC. The sale of shophouses & villas turned hot in areas such as Gia Lam District, Hung Yen Province, and Thu Duc District with the launch of many urban projects and rising prices (+67% YoY in Hanoi and +42% YoY in HCMC) thanks to huge demand.

The real estate market would face challenges from the beginning of the second quarter of 2022 until the end of the year for the following reasons: (1) Interest rates for home loans may go up amid increases in deposit rates, affecting the demand for home loans; (2) Investors have difficulties mobilizing capital amid tight control of credit and corporate bond issuances; and (3) Limited credit rooms of commercial banks would affect credit extension to homebuyers.

However, there are some positive factors that may drive the real estate market in 3Q22: (1) Boosted public spending with a number of megaprojects such as the North-South expressway, Long Thanh airport, traffic system connecting the downtown area of Hanoi and HCMC with neighboring provinces, boosting housing prices and the demand for real estate investment; (2) Promoted legal procedure and the relaunch of projects in the inner city of HCMC.

Investors should invest in real estate businesses with large clean landbank, good financial health, high absorption rate of launched projects. Furthermore, stock prices of the real estate sector have dropped to an attractive price range, with P/B fluctuating around 1x. Our top picks are Vinhomes (VHM), Khang Dien House (KDH), Nam Long Group (NLG), Dat Xanh Group (DXG).

Equity Research – KB Securities Vietnam

Industrial real estate

Prospect: Positive

**Tickers: KBC, PHR, NTC,
IDC**

Over the first five months of 2022, FDI inflows returned to Vietnam, with USD7.7 billion (+7.8% YoY) in disbursed FDI capital. We expect FDI to continue to recover thanks to the successful vaccination campaigns and the resumption of international flights. Foreign experts and investors can now freely enter Vietnam.

In the first quarter of 2022, the occupancy rate of industrial parks (IPs) in both the North and the South remained stable, and rental prices spiked thanks to the recovering demand after the pandemic. In the South, the occupancy rate remained at 85% despite rising new supply, with rental prices reaching a new peak of USD120/m²/lease term (+9% YoY). In the Northern region, the occupancy rate of IPs during 1Q22 stood at 80% against 75% in 1Q21, with rental prices of USD109/m²/lease term (+9% YoY).

In the medium term, industrial real estate will benefit from: (1) effective free trade agreements (FTAs); (2) Vietnam's attraction as a destination for companies looking to leave China thanks to lower labor costs and rental prices compared to other regional peers; and (3) promoted public spending with plenty of key infrastructure projects to boost connectivity between regions and connect Vietnam with the world.

Industrial real estate stocks have plunged to relatively attractive prices. Investors may consider investing in some notable industrial real estate enterprises are Kinh Bac City Development (KBC), Phuoc Hoa Rubber (PHR), Nam Tan Uyen JSC (NTC), IDICO Corporation (IDC), given their large leasable landbanks in convenient locations in key satellite manufacturing provinces adjacent to Hanoi and HCMC.

Equity Research – KB Securities Vietnam

Power

Prospect: Positive

Tickers: POW, NT2, REE, QTP, GEG, PC1

In the first five months of 2022, the nationwide commercial electricity output recorded 5.3% YoY growth. We believe that power output will continue to grow at the pre-pandemic level since the peak of this year's hot season is approaching and socio-economic activities are returning to normal. We maintain our forecast for electricity output growth in 2022 to reach 10.5% YoY, the highest over the past five years.

The outlook for the electric power sector is positive in 2022, with divergence among plants using different sources of energy: (1) Hydropower plants will benefit from La Nina, which will likely continue until the end of 2022; (2) Wind power plants put into commercial operation before November 1, 2021 will enjoy high revenue growth in 2022 thanks to high electricity prices, especially wind power projects of PC1 Group (PC1), Gia Lai Electricity (GEG), Refrigeration Electrical Engineering (REE), ...; (3) Gas-fired power plants will recover from the low base of 2021 by offsetting the reduced capacity of coal-fired power plants due to coal shortages; and (4) Coal-fired power plants will continue to face challenges until Vinacomin (TKV) and Dong Bac Corporation find alternative sources of imported coal at lower prices.

Power stocks increased dramatically in 2Q22 on high expectations of the market recovery in 2022 and the defensive stocks in the context of elevated inflationary pressures and economic recession risk in the future. Although power stocks decreased sharply to more reasonable prices, we believe hydropower and electricity generation from renewable energy benefit the most in 2H22, supported by: (1) Favorable hydrological conditions with the coming rainy season and the La Nina phenomenon which may last until the end of 2022; and (2) competitive advantage over the thermal power plants given high coal prices. Our top picks include REE, PC1, and GEG.

Equity Research – KB Securities Vietnam

Information Technology

Prospect: Positive

Tickers: FPT, CMG

The world demand for information technology showed a high growth in 2021. According to Gartner, global technology consumption growth in 2021 reached 9.5% YoY and should grow at 4% and 5.5% in 2022 and 2023 respectively. This is a great driving force for software export activities in Vietnam with its strength in human resource quality and reasonable labor costs. In 2021, the total revenue of the ICT industry was USD136.15 billion, up 9.2% YoY, of which the hardware sector contributed USD121 billion. The Ministry of Information and Communications forecasts the ICT industry's CAGR in the next four years to hit 15.22%, driven by digital transformation. The Ministry of Information and Communications hopes there would be 100,000 digital technology enterprises in Vietnam by 2025, up 56.25% compared to 2021's 64,000 firms.

Software export growth still maintained a good growth momentum, supported by an increase in the number of new contracts on the rapid rise of global demand for software solutions and digital transformation as businesses have to look for ways to improve business performance and save costs during the COVID-19 pandemic. FPT's revenue from foreign IT services grew 29% YoY, and the number of new contracts was up 40.3% YoY.

Domestic digital transformation is taking place rapidly in both the business sector and public administration sector. Provinces such as Bac Can, Binh Phuoc, Thanh Hoa, Son La, and Kon Tum have coordinated with businesses to perform digital transformation, data-driven approach, and use 4.0 technology, cloud technology, AI and the internet of things.

The Telecommunications segment is expected to grow steadily thanks to an increase in broadband internet subscribers (up 8-10%) and the rising growth of the OTT TV segment as the demand for entertainment via OTT TV in Vietnam. Besides, the development of mobile broadband including 4G-5G will be a breakthrough for telecommunications businesses.

We believe that IT companies will continue to maintain double-digit growth in 2022. Investors should consider stocks with strong software export and digital transformation activities and attractive valuation such as FPT Group (FPT) and CMC Corp (CMG).

Equity Research – KB Securities Vietnam

Banks

Prospect: Positive

**Tickers: VCB, BID, VPB,
MBB, TCB**

According to data from the State Bank of Vietnam (SBV), the demand for loans returned after the Lunar New Year, so the credit of the whole industry rose 3.22% in March. 1Q22 credit growth doubled 1Q21 figure to reach 5.04%. Credit growth in April and May was slower at 1.7% and 1% since many banks ran out of credit room from 1Q and the SBV tightened credit into the real estate sector. In addition, the SBV restarted the treasury bill channel after two years to control the amount of money in circulation. As inflation targeting is an important task of the SBV, KBSV would lower the forecast of credit growth for the whole industry this year to 13–14%.

In 1Q22, the average earnings yield recovered quite slowly by 11bps vs 4Q21 when banks had to cut interest rates to support businesses due to the resurgence of the Coronavirus in 3Q21. Meanwhile, banks are increasing deposit rates to attract capital for lending. The common increase is about 0.1 – 0.7 ppts in the first five months of the year, and the industry average is around 0.2 – 0.3 ppts. However, the industry's CASA remained at a record high of 23.3%, so the average cost of funds in 1Q22 was still equivalent to that of 4Q21 (at 3.41%). The industry's net profit margin improved by 8bps QoQ to 3.67%. As a result, 1Q22 net profit of listed banks rose 8.3% QoQ and 19.1%YoY to VND98,335 billion. Well-controlled costs help 1Q pre-tax profit jump up 48.8%QoQ and 30.7%YoY.

The asset quality of the whole system still suffers from the negative effects of the pandemic in 3Q last year. By the end of 1Q, the non-performing loan (NPL) ratio of the banks we followed was 1.43% (+8bps QoQ and flat YoY). Most of the overdue debt groups recorded a sharp increase: Group 2 up 37.8%YoY, group 3 up 21.1%YoY, and group 4 up 86.9%YoY. Group 5 debt decreased slightly by 5.1%YoY but still increased 20%QoQ. 1Q loan loss coverage ratio was 151.3%, up 6.9% compared to the end of 2021. The outstanding balance of the unchanged-group-debts was more than VND198 trillion borrowed by 680 thousand customers, while the balance of unchanged-group-debts with no interest and lower interest rate was VND18 trillion borrowed by 166 thousand customers. The time for debt restructuring for customers will end on June 30, 2022 according to Circular 14, and further information on the extension of the time limit remained unknown. Therefore, the NPL ratio of the whole industry in 3Q should increase as the loans are allocated to the right debt groups. Banks that have made provision 100% of debt for restructuring tend to get higher

profit growth this year, while banks that made provision 30% of debts may face the risk of surging provision costs.

We assess that 3Q outlook of the banking industry will be brighter thanks to the SBV's credit room extension which should take place in mid-July and boost lending activities of the whole industry. We do not expect the SBV to extend the room too much as the bank is tightening cash flow to control inflation. Regarding real estate lending, we expect the SBV to gradually loosen up on personal loans to buy houses. This will have a positive impact on the performance of banks as well as on stock prices. In addition, the industry average deposit interest rate in 2022 should rise from 0.3 to 0.5 ppts vs the end of 2021, however, the CASA rate of the whole industry will maintain at a high level, which will undermine the impact of the increase in deposit interest rates. Besides, lending interest rate is forecasted to go up from 0.1 to 0.3 ppts. Although the increase of lending interest rate is lower than that of the deposit rate, it would benefit net profit margin. In addition, low base level in 3Q21 will also be a driving force for banks to record higher profit growth in 3Q this year.

We maintain a POSITIVE view for banks in 3Q22. Banks with good asset quality and solid backup buffers such as Bank for Investment & Development (BID), Vietcombank (VCB), Prosperity Bank (VPB), Military Bank (MBB) and Techcombank (TCB) are investment opportunities to consider. MBB and VPB are expected to have outstanding credit limits (25 – 30%) thanks to (1) MBB's acceptance of weak credit institutions; and (2) VPB's top CAR ratio in the industry (> 15% after the sale of FECredit). For State-owned banks, we continue to recommend VCB for its safety of business operation. Investors can also consider BID as its positive factors include (1) higher credit room from the beginning of the year (10% vs 8.5% in previous years); (2) higher CASA thanks to digital transformation via linking bank accounts with chip-based citizen identity card; and (3) the bank's early stages of increasing loans for retailing.

Bank stock prices showed a steep fall of 30% since the beginning of the year due to the SBV's tightening real estate credit, low credit room and bad news related to corporate bond market. PB of the industry was at 1.5x-equivalent to -1Std of the three-year PB average. In addition, more positive outlook on business results in the second half of the year also make the valuation more attractive.

We suppose there are three main risks, including (1) increasing bad debts from real estate businesses given tightened credit; (2) long time before the SBV's credit room extension (until the end of 3Q); and (3) higher-than-expected inflation leading to the SBV's tightening credit cash flow.

Equity Research – KB Securities Vietnam

Retailers

Prospect: Positive
Tickers: MWG, PNJ

Total retail sales of goods and services in 5M22 reached VND2,257 trillion (+9.7% YoY) thanks to abundant commodities and rising demand. Retail sales of goods alone saw 9.8% YoY growth.

We are upbeat about the prospect of retailers in the medium and long term, supported by Vietnam's young population, high GDP growth, and growing middle class. However, we also note that the retail industry may be heavily affected by intensified inflation pressures in the short term, which will cause a decrease in total consumer spending.

Our top picks are Mobileworld (MWG) and Phu Nhuan Jewelry (PNJ). For PNJ, its 4M22 business results showed outstanding growth, exceeding our initial forecast, with net revenue and NPAT up 42.9% and 44.9% YoY, respectively. Positive business performance was boosted by the 45.4% YoY growth in retail sales, given the strong recovery in demand and that PNJ's main customer base was hardly affected by the pandemic. For MWG, revenue and NPAT fell short of our expectations, up 18% and 8% YoY in 4M22, respectively. It was mainly due to the slow recovery of the Bach Hoa Xanh (BHX) chain and lower-than-expected smartphone and consumer electronics sales amid low season and dwindling demand after the lifting of Covid lockdowns.

PNJ's prospect in 3Q22 is bright since it will use the proceeds from the private placement to open new stores in tier II and III cities in the second half of this year. It will further drive the earnings and revenue growth of PNJ in 2022. However, PNJ's share price may not rise vigorously in 3Q22 given its sharp increases in 1H22, which partly reflected the good inner strength of the company. Meanwhile, we take a neutral stance on MWG given subdued business results of the BHX chain, which may not improve quickly in 3Q22.

Research Division – KB Securities Vietnam



Fisheries

Prospect: Positive

Tickers: FMC, VHC, ANV

Vietnam's seafood industry has had an impressive growth rate in 5M22, with a turnover of over USD4.6 billion, up 42% YoY. In May 2022, seafood exports levelled off compared to April 2022 but still maintained growth of USD1 billion, up 27% YoY.

According to the Vietnam Association of Seafood Exporters and Producers (VASEP), seafood exports in May were not as good as in April due to shrimp exports. Specifically, shrimp exports reached USD416 million, up 19% YoY in May 2022 (vs. +47% YoY in April 2022). In 5M22, shrimp exports hit USD1.8 billion (+38% YoY), accounting for 39% of seafood export turnover. The strong growth of shrimp exports in 4M22 was attributable to abundant inventories at low prices when businesses signed contracts at the end of last year. However, seafood companies would face challenges in the coming months, given decreasing low-priced inventories amid high raw material costs.

Meanwhile, pangasius exports reached USD245 million in May and hit over USD1.2 billion (+90% YoY) in 5M22. Pangasius exports benefited from high selling prices amid surging raw material costs from the beginning of this year and Western sanctions against Russian pollock exports to the EU.

We are upbeat about the seafood industry in 3Q22. We believe that in the second half of 2022, the recovering demand in China after the Covid lockdowns will be a good opportunity for Vietnamese enterprises to increase pangasius exports. However, seafood stocks will hardly enjoy increases in the second half of 2022 since they have outperformed the general market over the first half of the year, which partially showed the good inner strength of enterprises.

Research Division – KB Securities Vietnam

Oil & Gas

Prospect: Positive

**Tickers: GAS, BSR, PVS,
PLX, PVT**

In 1Q22, Brent oil prices continuously reached new highs, averaging USD97.9/barrel (+59.7% YoY) due to Russia's war in Ukraine and concerns about Western sanctions against Russia, the world's third largest oil exporter with output accounting for 10% of the total supply. Besides, OPEC+ failed to raise oil output as planned under a deal to make up for the shortfall in Russian fuel, contributing to high world oil prices. In our view, Brent will likely stay around USD100/barrel in the second half of 2022 due to the following reasons: (1) the tensions between Russia and Ukraine have not shown signs of cooling down; (2) the recovery of the global economy helps the demand for crude oil to increase sharply amid limited supply; and (3) the lifting of Covid lockdowns in China, the largest consumer of crude oil in the world, will further drive the demand for crude oil.

In our view, PV Gas (GAS) is the leading stock in the oil and gas industry thanks to high selling prices in line with soaring oil prices and Vietnam's shift to natural gas and imported LNG for production to offset the shortage of electricity in the long term. GAS's profit in 2022 is expected to recover as gas prices benefit from world oil prices, assuming the average oil price of USD90/barrel (vs. USD70/barrel in 2021).

Petrolimex (PLX) will continue to recover thanks to rising gasoline demand and prices in the first quarter of 2022 and the regulation to reduce days in inventory for petroleum businesses from 30 to 20 days. Besides, the number of days to adjust petrol prices will decrease from 15 to 10 days to closely follow the world price movements, thus lifting the profits of fuel retailers. Also, PLX has been more proactive in the supply apart from the two domestic oil refineries, helping to improve PLX's gross profit margin until the end-2022.

Binh Son Refinery (BSR) will continue to benefit from high crack spreads and operate at maximum capacity to make up for the reduced production of its main competitor Nghi Son Refinery as a result of financial distress.

PV Transportation (PVT) will benefit from the increase in tanker freight rates given the Russia-Ukraine conflict and the ambitious fleet expansion plan in the long term, promising to bring high efficiency.

For PV Drilling & Well Services (PVD) & PV Technical Services (PVS), we are upbeat about the prospect of these two upstream companies thanks to oil prices remaining high at over USD55/barrel (the breakeven point of the industry in the region). Although their business results were not very impressive in 1Q22, we expect oil prices to reach new highs, boosting these two businesses. Concerning PVD, we expect the high oil price will drive oil exploration, pushing the day rate higher. At the same time, the TAD rig will start a long-term drilling contract in Brunei after four years of inactivity, which will be a driving force for PVD. Regarding PVS, it is bidding for Engineering, Procurement and Construction (EPC) projects with much progress. Moreover, high oil prices also foster profits from FPSO/FSO joint ventures.

From our observation, most oil and gas stocks have dropped to attractive prices and the positive outlook in the coming period will be supported by: (1) Oil prices continue to remain high amid tight supply, which brightens the outlook for the oil and gas sector during 2022 and 2023 as well as enhances market sentiment on share prices; and (2) New investment demand in the industry returns in two years tightening investment, bringing more opportunities for upstream and midstream companies.

Research Division – KB Securities Vietnam



Logistics

Prospect: Neutral

Tickers: GMD, HAH

According to the Vietnam Maritime Administration, the total container throughput passing through Vietnam's seaports reached 10,480 million TEUs, up 1% YoY in 5M22. In particular, exports and imports rose by 2% and 6%, respectively (from the export growth of 16.1% YoY in 5M21). On the other hand, the domestic throughput decreased by 3% YoY due to dwindling demand amid surging freight rates.

In May 2022, the total cargo volume output at Hai Phong Port reached 10.45 million DWT, up 8.1% YoY (an impressive recovery compared to 4M22, down 4.2% YoY). In the first five months of this year, only Nam Hai Port (+92.8% YoY) and Nam Dinh Vu Port (28.3% YoY) enjoyed double-digit growth, while Green VIP and Green witnessed the sharpest decreases, down 11.9% YoY and 12.2% YoY, respectively.

The construction on terminals No. 3 and No. 4 at the Lach Huyen Port was behind schedule (in late 2021, early 2022) due to problems related to land handover. Therefore, both terminals could not be put into operation as planned (in December 2023 for terminal No. 3 and June 2024 for terminal No. 4). The delay in construction on both terminals will help reduce competitive pressure for downstream ports in the medium term.

Cai Mep–Thi Vai port cluster has made much progress in the past period. Recently, in the 'Container Port Performance Index 2021' report by the World Bank and S&P Global Market Intelligence, Cai Mep–Thi Vai port cluster ranked 11th among the world's most efficient container ports, up 38 places compared to 2020. Most ports in this area are approaching maximum capacity in operation, of which Gemadept (GMD)'s Gemalink port should run at 90% of the design capacity in 2022 after two years of operation. Growing demand from major shipping lines and developed infrastructure connecting port clusters with other provinces will be a golden opportunity for new ports such as GMD's Gemalink 2 project, with a capacity of 1.5 million TEU/year.

In 1Q22, logistics companies in Hai Phong such as Dinh Vu Port Investment and Development (DVP), Vietnam Container Shipping (VSC), DoanXa Port (DXP), Port of Hai Phong JSC (PHP) all had modest revenue growth due to reduced cargo volume at Hai Phong port cluster. Meanwhile, GMD grew by 28% YoY with the growth momentum coming from Gemalink, and Hai An Transport & Stevedoring (HAH) grew by 81.7% YoY thanks to rising freight rates. In our view, the cargo volume will increase in the second half of the year after the relaxation of the Covid lockdowns in China that caused disruptions in transportation and congestion at the country's seaports. However, we do not take a positive stance on logistics stocks, given their sharp increase over the past months and decreasing freight rates.

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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